

## Teaching Notes for Financial Accounting

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### ***Ethics Question 3***

#### During coverage of Plant Assets

Should a company purchase machinery that requires fewer workers? Would your analysis change if you personally knew some of the affected workers?

Once gain this discussion can go in many different directions, but following are some points to consider. (Taken from Haen. 2013. "Integrating Catholic Social Teaching into Undergraduate Accounting Courses" *Journal of Catholic Higher Education*, 32, 1, 90-91).

A company's decision to downsize workers can detrimentally affect its reputation. This reputation may have taken years to build, but can be quickly tarnished by a rash decision that ignores *The Dignity of Work and the Rights of Workers*. A damaged reputation may lower the bottom line by decreasing customer loyalty, making it difficult to recruit new workers when needed, creating animosity during future labor negotiations, and perhaps making the community hesitant to offer concessions (tax breaks) when sought for expansion.

This type of decision can also be made very personal for the student and perhaps will help them understand the concepts of *The Dignity of Work and the Rights of Workers* and *Solidarity*. The situation can be introduced in a very numbers-oriented way – the purchase of a piece of machinery for \$1,000,000 will allow the company to lay off twenty workers for an overall cost savings of \$400,000 annually. Students' thought processes will immediately turn to how to record the new machinery in the accounting records, so it should be illustrated on the board. When asked about other considerations related to this decision, students may identify issues, such as the need to record depreciation expense in the future; that overall, the payroll expense of the business will go down; or other issues related to the new machinery they have just recorded.

Should (or can) this decision to buy the machinery be reevaluated if the student knows some of the twenty workers being laid off? What if the student's mother or father is one of the employees that will be laid off? What if one of the laid off workers is the student's best friend from high school? What if the student is the godparent of this friend's disabled child? While the example may seem a bit extreme and even evoke laughter from the students at first, it does serve its purpose. Students need to learn how to stop

and consider how business decisions affect others, instead of just focusing on the economic ramifications of decisions. The CST component of *The Dignity of Work and the Rights of Workers* teaches us that workers have the right to fair treatment, while the component of *Solidarity* teaches us that we are all one family. When CST is incorporated into these discussions, “justifying downsizing on economic grounds often becomes difficult.”<sup>1</sup>

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<sup>1</sup> Joan Van Hise and John P. Koeplin, “Integrating Mission-based Values into Accounting Curriculum: Catholic Social Teaching and Introductory Accounting,” *Journal of Catholic Higher Education* 29, no. 2 (2010): 163.